

Digest of An Audit of Worker's Compensation Fund Marketing Practices and Performance Indicators

We have completed a survey of the marketing and advertising practices of Worker's Compensation Fund of Utah (WCFU). Also, in response to legislative interest that came after we issued our report on **Compensation Practices of Quasi-governmental Organizations (Report #97-01)**, we have verified some selected performance indicators of WCFU. WCFU, in defense of their compensation practices, cited their outstanding financial performance as a justification for their executives' salaries. Although WCFU has generally cooperated with our auditing efforts, the Office of the Legislative Auditor General did not have open access to primary data held by WCFU. All information that we requested from WCFU was first edited and cleared through the executive office, therefore we had very little contact with the data in its original state. The information contained in this report is, to the best of our knowledge, valid—as we only included information that we were able to independently verify. Our primary objectives in this report are to:

- Review the marketing and promotional activities of WCFU, and
- Validate selected performance indicators of WCFU.

Below is a synopsis of the most significant issues found in this report:

- ❑ **WCFU Marketing, Advertising and Agent Expenses Have Expanded.** In the course of this audit we determined that since 1993, WCFU has emphasized and increased spending in the areas of printed, radio and television media campaigns. The organization has moved in the direction of advertising in an effort to remain competitive and retain its market share. Overall, expenses in the areas of advertising, marketing and independent agent incentive expenses have increased an average of 43% annually from 1994 to 1996. Specifically, advertising expenses have increased 58% annually, agent incentive expenses have increased 31% annually, and marketing has increased 22% annually. The four-year total for expenses in these three categories is \$4,074,133; with 1997 only partially completed. (See Chapter II for more details.)
- ❑ **WCFU Leased Delta Center Suite Accounts for 87% of Marketing Expenses.** WCFU marketing expenses are primarily aimed at current and prospective customers, although the organization also uses these resources to lobby legislators. These expenses include tickets to sporting and performing arts events, golf outings, food and other entertainment resources. The most notable expense in this category is the lease on the Delta Center Suite and accompanying Jazz basketball tickets which totaled \$416,698 from 1993 to 1997. This expense, which includes

Grizzly hockey tickets, food and other events in addition to the Jazz tickets, accounts for approximately 87% of WCFU's entertainment expenses over a five-year history. Other private, local workers compensation insurance writers we spoke with do not lease a suite at the Delta Center. (See Chapter II for more details)

- ❑ **WCFU Independent Agent Incentive Expenses are Significant.** Besides a standard sales commission, WCFU independent agents also receive incentives such as luxury trips, event tickets, agency bonuses and golf outings. Since 1994, WCFU has sponsored three different trips in which selected agents and a guest were invited. The total cost of these trips is \$348,948. In addition, a yearly golf tournament and bonus commissions for exceptional agency sales bring total expenses for agents to \$1 million over that same time period. This excludes sales commissions that total \$1.2 million. For this, the independent agents have signed new business for WCFU totaling more than \$10 million in premiums and total earned premiums of over \$25 million from 1994 to 1996. We spoke to other workers compensation insurance writers, both locally and nationally, and did not encounter another organization that awards incentives to the extent that WCFU does. (See Chapter II for more details)

- ❑ **Economy and Industry Have Greatly Influenced WCFU's Performance Indicators.** We believe that there were economic and industry-wide forces that helped improve the financial situations of WCFU and other insurance organizations across the nation. In the mid to late 1980's, the workers compensation industry as a whole experienced some serious problems that left some state funds insolvent. Fortunately, Utah did not sustain the damage that many other funds did, and over subsequent years the state has become a profitable market for workers compensation insurance writers. Contributing to these improvements are industry-wide emphasis on cost controlling measures, workplace safety, anti-fraud programs and managed care programs. WCFU has adopted these initiatives and have greatly improved their financial standing, as have other workers compensation organizations in the private and state markets. (See Chapter III for more details.)

- ❑ **WCFU Claims Have Decreased at a Higher Rate Than Competitors.** WCFU claims have decreased 26% since 1992, which reflects an average annual decrease of 9% over the past five years. This decrease can be attributed to more aggressive claims management, safety programs, managed care and fraud awareness. In 1992, WCFU's claims accounted for about 59% of all claims in Utah, but in 1996, only 38% of all Utah claims were attributed to this organization. Primarily, WCFU officials believe that the emphasis on safety has had the greatest impact. We also looked at other private workers compensation insurers and found that their claims reductions were not as dramatic as WCFU's decreases. (See Chapter III for more details.)

- ❑ **WCFU was not Declared Insolvent, Despite Recent Statements.** Some WCFU

officers and board members have recently alleged that the WCFU was, in 1986, insolvent or bankrupt. These statements were made during various legislative committees. After examining State Auditor reports spanning 16 years, we concluded that the WCFU was never bankrupt, and thus, these statements are an inaccurate depiction of the history of the organization. Indeed, the WCFU experienced a significant net loss in 1986, but at no time did the WCFU become insolvent. We believe that the WCFU has overstated their situation during this time, which additionally has overstated improvements they have made since. (See Chapter III for more details.)